

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Management's Discussion and Analysis,
Basic Financial Statements, Supplemental
Information, and Auditor's Reports Thereon

June 30, 2015



NEWHOUSE & VOGLER
Certified Public Accountants

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

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Independent Auditor's Report

Honorable Mayor and Borough Assembly
The Aleutians East Borough
King Cove, Alaska

Ladies and Gentlemen:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Aleutians East Borough, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Aleutians East Borough's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Aleutians East Borough's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit of the Aleutians East Borough School District. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Aleutians East Borough School District is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Honorable Mayor and Borough Assembly
The Aleutians East Borough

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Aleutians East Borough, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 12, 19 through 21, and 41 through 52 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Aleutians East Borough's basic financial statements. The combining and individual non-major fund financial statements, and the Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, are presented for purposes of additional analysis and are not part of the basic financial statements. The accompanying schedule of State financial assistance is presented for purposes of additional analysis as required by *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* and is also not a required part of the financial statements.

The combining and individual nonmajor fund financial statements, Schedule of Expenditures of Federal Awards, and the Schedule of Expenditures of State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Honorable Mayor and Borough Assembly
The Aleutians East Borough

Other Reporting Required by Government Auditing Standard

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29th, 2016 on our consideration of Aleutians East Borough's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Aleutians East Borough's internal control over financial reporting and compliance.



Anchorage, Alaska
March 29, 2016

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Management's Discussion and Analysis

Year Ended June 30, 2015

As the management of The Aleutians East Borough (the Borough), we offer readers of the Borough's financial statements this narrative overview and analysis of the financial activities of the Borough for the fiscal year ended June 30, 2015. We encourage readers to read the information presented here in conjunction with additional information we have furnished in the Borough's financial statements which follow this narrative.

FINANCIAL HIGHLIGHTS

- Assets of the Borough exceeded liabilities at the close of the fiscal year by \$96,686,832 (net position).
- The Borough's total net position decreased by \$10,595,014, primarily due to the impairment of the hovercraft, prior period adjustments to properly report understated depreciation, and prior period adjustment to record net pension liability.
- Governmental funds reported combined ending fund balances of \$58,871,617, a decrease of \$380,919 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$11,124,597, or 100 percent of total general fund expenditures for the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Borough's basic financial statements. The Borough's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Borough through use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Borough.

THE ALEUTIANS EAST BOROUGH

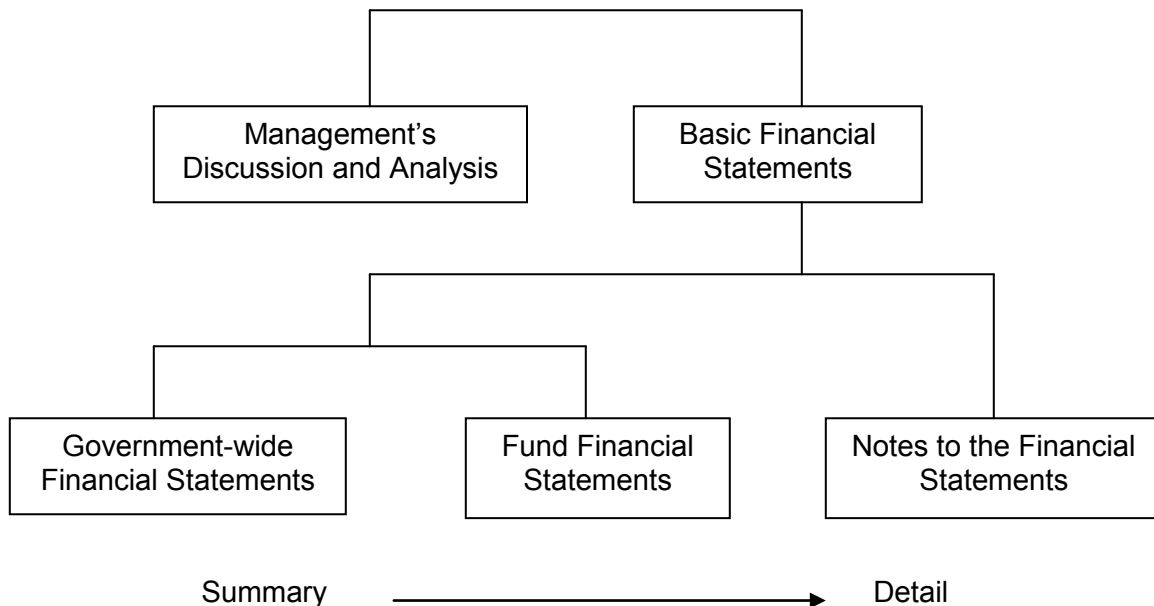
King Cove, Alaska

Management's Discussion and Analysis, continued

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits A-1 and A-2) in the basic financial statements are government-wide financial statements. They provide both short- and long-term information about the Borough's financial status.

The next statements (Exhibits B-1 through B-5) are fund financial statements. These statements focus on activities of the individual parts of the Borough's government. These statements provide more detail than government-wide statements. There are two parts to fund financial statements: governmental funds statements and budgetary comparison statements.

The next section of the basic financial statements is notes. Notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the Borough's individual funds. Budgetary information can also be found in this part of the statements.

Government-wide Financial Statements

Government-wide financial statements are designed to provide the reader with a broad overview of the Borough's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short- and long-term information about the Borough's financial status as a whole.

The two government-wide statements report the Borough's net position and how they have changed. Net position is the difference between the Borough's total assets and total liabilities. Measuring net position is one way to gauge the Borough's financial condition.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Management's Discussion and Analysis, continued

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

Government-wide Financial Statements, continued

Government-wide statements are divided into two categories: governmental activities and component units. Governmental activities include the Borough's basic services such as natural resource management, capital projects management, and general administration. State and federal grant funds finance most of these activities. The component unit includes the Aleutians East Borough School District. The District's activities include Instruction, Support Services, Student Transportation, and Food Services, among others. These activities are supported by local, State, and federal financial aid.

Government-wide financial statements are Exhibits A-1 and A-2 of this report.

Fund Financial Statements

Fund financial statements (see Figure 2) provide a more detailed look at the Borough's most significant activities. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. All funds of the Borough are included within one broad category: governmental funds.

The Aleutians East Borough's Net Position
Figure 2

	2015	2014
Current and other assets	\$ 55,798,763	54,057,206
Capital assets	76,175,701	86,845,901
Deferred outflows - pension related	95,397	-
<i>Total assets</i>	<u>\$ 132,069,861</u>	<u>140,903,107</u>
Liabilities	<u>\$ 35,287,632</u>	<u>33,679,863</u>
Deferred Inflows	<u>\$ 153,999</u>	<u>-</u>
Net position:		
Net investment in capital assets	\$ 47,494,160	56,369,849
Reserved:		
Forward funding	8,382,997	8,449,389
Construction	631,248	4,506,811
Permanent fund	38,751,990	37,328,823
Unreserved:		
Designated for major maintenance	151,712	57,097
Undesignated	1,216,123	511,275
<i>Total net position</i>	<u>96,628,230</u>	<u>107,223,244</u>
	<u>\$ 132,069,861</u>	<u>140,903,107</u>

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Management's Discussion and Analysis, continued

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

Fund Financial Statements, continued

Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Borough's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out and what monies are left at year end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting which provides a short-term spending focus. As a result, governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Borough's programs. The relationship between government activities (reported in the statement of net position and statement of activities) and governmental funds is described in a reconciliation that is part of the fund financial statements.

The Borough adopts an annual budget for its general fund. The budget is a legally adopted document that incorporates input from the management of the Borough and decisions of the Assembly about which services to provide and how to pay for them. It also authorizes the Borough to obtain funds from identified sources to finance these current-period activities. The budgetary statement provided for the general fund demonstrates how well the Borough complied with the budget and whether or not the Borough succeeded in providing services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Assembly; 2) the final budget as amended by the Assembly; 3) actual resources, charges to appropriations, and ending balances in the general fund; and 4) the difference or variance between the final budget and actual resources and charges. To account for the difference between the budgetary basis of accounting and modified accrual basis, a reconciliation showing differences in reported activities is shown at the end of the budgetary statement.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of data provided in the government-wide and fund financial statements. Notes to the financial statements are on pages 26 through 40 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The government-wide financial statements for the fiscal year ended June 30, 2015, are the beginning of a new era in financial reporting for the Borough and many other units of government across the United States. Prior to this year, the Borough maintained its governmental and proprietary fund groups as two separate and very distinct types of accounting without any type of consolidated statement that accurately reflected operations and net position of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust statements in such a way that the total column would represent the overall financial condition of the Borough. These statements were basically the equivalent of fund financial statements that appear in this report with fiduciary funds and two account groups, long-term debt, and general fixed assets added in.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Management's Discussion and Analysis, continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued

Changes in the financial statement reporting model are mandated by GASB. GASB 34 dictated the changes you see in the Borough's financial reports as well as those of many other units of government. While the Borough was required to implement these changes for the fiscal year ended June 30, 2004, other units were required to implement Statement 34 in 2002.

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. Assets of the Borough exceeded liabilities by \$97,806,308 as of June 30, 2015. The Borough's net position decreased by \$9,416,936 for the fiscal year ended June 30, 2015. However, the largest portion reflects the Borough's investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure) less any related debt still outstanding that was issued to acquire those items. The Borough uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the Borough's investment in its capital assets is reported net of any outstanding related debt, resources needed to repay that debt must be provided by other sources, since capital assets cannot be used to liquidate these liabilities.

Governmental Activities

Governmental activities decreased the Borough's net position by \$6,717,523, thereby accounting for 63 percent of total decrease in net position of the Borough (see Figure 3). Key elements of this decrease are as follows:

- Prior year adjustment for understated depreciation
- Principal payments on debt
- Investment revenues decreased

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Management's Discussion and Analysis, continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued

Governmental Activities, continued

The Aleutians East Borough Changes in Net Position
Figure 3

Revenues:

Program:

Charges for services	\$ 5,860,192
Operating grants and contributions	4,098,112
Capital grants and contributions	410,235

General:

Unrestricted investment earnings	2,113
Restricted investment earnings	1,474,312
Miscellaneous	1,459,094
<i>Total revenues</i>	<u>13,304,058</u>

Expenses:

General fund	6,843,300
Capital improvements	449,007
Trust fund	41,684
Debt service	1,326,701
Bond construction	41,686
Maintenace reserve	140,782
Business Type Activities	2,044,725
<i>Total expenses</i>	<u>10,887,885</u>

Loss on Impairment Business type activities	<u>(3,694,854)</u>
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Increase in net position	(1,278,681)
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Net position, beginning of year	107,223,244
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Prior period adjustment	<u>(9,316,333)</u>
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Net position, beginning of year, restated	<u>97,906,911</u>
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Net position, end of year	<u>\$ 96,628,230</u>
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FINANCIAL ANALYSIS OF THE BOROUGH'S FUNDS

As noted earlier, the Borough uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Borough's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Borough's financing requirements. Specifically, the unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds have total revenues of \$11,441,970 and expenditures of \$10,216,388. The net change in fund balances after transfers and prior period adjustments was a decrease of \$380,919.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS OF THE BOROUGH'S FUNDS, continued

At June 30, 2015, governmental funds of the Borough reported a combined fund balance of \$58,658,158, a 1 percent decrease over last year.

Budgetary Highlights

General fund budgets are prepared according to Alaska law and are based on a modified accrual basis of accounting. The most significant budgeted fund is the general fund.

Actual revenues in the general fund were \$1,002,693 more than anticipated. This variance was related primarily to the Borough raw fish taxes.

Actual expenditures in the general fund were \$378,413 more than anticipated. This variance was related primarily to the PERS on behalf expenses.

Actual revenues in capital improvements were \$515,278 more than anticipated. This variance was related primarily to the increase in revenue from Trident for the Akutan/Akun work.

Actual expenditures in capital improvements were \$41,138 less than anticipated. This variance was due to the decrease in activity within this fund.

Actual revenues in the trust fund were \$1,114,851 greater than anticipated. This variance was due to investments performing better than anticipated.

Actual expenditures in the trust fund were \$6,684 more than anticipated. This variance was due to an increase in investment management fees within this fund.

Actual expenditures in the debt service fund were \$3,364,268 greater than anticipated. This variance was due to the increase in principle and interest expense within this fund.

Actual revenues in the bond construction fund were \$4,991,582 less than anticipated. This variance was due to a decrease in other revenue.

Actual expenditures in the trust fund were \$4,929,108 less than anticipated. This variance was due to less capital outlays than expected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Aleutians East Borough's investment in capital assets for its governmental and business-type activities as of June 30, 2015 totals \$76,175,701 (net of accumulated depreciation; see Figure 4).

Major capital asset transactions during the year include the following additions:

- Construction in process additions totaled \$374,089.
- Furniture and equipment additions totaled \$28,917.
- Vehicle additions totaled \$98,745.
- Prior year adjustment of depreciation for \$8,271,385.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Management's Discussion and Analysis, continued

CAPITAL ASSET AND DEBT ADMINISTRATION, continued

Capital Assets, continued

- Current year depreciation of \$3,018,802.
- Impairment of hovercraft for \$3,694,854.
- Reclassification of construction in progress to infrastructure in service of \$41,622,618.

The Aleutians East Borough's Capital Assets
Figure 4

	Capital Assets, Depreciated							Totals
	Capital Assets, Not Depreciated -			Furniture and Equipment		Infrastructure Construction in Process	Access Road Construction in Process	
	Land	Buildings	Infra-structure	Equipment	Vehicles			
Primary government -								
Governmental activities:								
Balance, June 30, 2014	\$ 5,323,074	45,318,426	62,245,095	730,341	182,344	11,613,142	-	125,412,422
Increases	-	-	-	28,917	98,745	99,214	274,875	501,751
Balance, June 30, 2015	5,323,074	45,318,426	62,245,095	759,258	281,089	11,712,356	274,875	125,914,173
Accumulated depreciation -								
Balance, June 30, 2015	-	(37,252,403)	(22,469,910)	(677,182)	(177,892)	-	-	(60,577,387)
Capital assets, net	5,323,074	8,066,023	39,775,185	82,076	103,197	11,712,356	274,875	65,336,786
Business-type activities:								
Balance, June 30, 2014	-	7,403,571	-	11,500,198	-	-	-	18,903,769
Decreases	-	-	-	(6,402,642)	-	-	-	(6,402,642)
Balance, June 30, 2015	-	7,403,571	-	5,097,556	-	-	-	12,501,127
Accumulated depreciation -								
Balance, June 30, 2015	-	(1,636,197)	-	(26,015)	-	-	-	(1,662,212)
Capital assets, net	-	5,767,374	-	5,071,541	-	-	-	10,838,915
Total Governmental activities:	5,323,074	13,833,397	39,775,185	5,153,617	103,197	11,712,356	274,875	76,175,701
Component units:								
Balance, June 30, 2014	-	-	-	802,896	-	-	-	802,896
Increases	-	-	-	82,890	-	-	-	82,890
Balance, June 30, 2015	-	-	-	885,786	-	-	-	885,786
Accumulated depreciation -								
Balance, June 30, 2015	-	-	-	(627,586)	-	-	-	(627,586)
Capital assets, net	\$ -	-	-	258,200	-	-	-	258,200

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Management's Discussion and Analysis, continued

CAPITAL ASSET AND DEBT ADMINISTRATION, continued

Long-term Debt

Additional information on the Borough's capital assets can be found in the notes to the basic financial statements.

As of June 30, 2015, the Borough had the following outstanding debt:

Bonds payable at July 1, 2014	\$ 30,385,000
Bond refunding	2,205,000
Prior year adjustment	(345,000)
Principal payments	<u>(3,635,000)</u>

Bonds payable at June 30, 2015	<u>\$ 28,610,000</u>
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Additional information on the Borough's outstanding debt can be found in the notes to the basic financial statements.

REQUESTS FOR INFORMATION

This report is designed to provide an overview of the Borough's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Director of Finance, The Aleutians East Borough, PO Box 49, King Cove, AK 99612.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Exhibit A-1

Government-wide Statement Net Position

June 30, 2015

	Primary Governmental Activities	Business-type Activities	Total	Component Unit
Assets				
Cash and cash equivalents	\$ 300	-	300	-
Equity in central treasury	53,860,712	-	53,860,712	3,438,146
Investment in Southwest Governments, LLC	409,551	-	409,551	-
Deposits	-	31,292	31,292	-
Prepays	-	-	-	13,675
Due From Component Unit	380,109	-	380,109	-
Due from primary government	-	-	-	-
Inventory	-	-	-	59,740
Receivables, net:				
State of Alaska	346,836	-	346,836	-
Federal	16,596	-	16,596	-
School	26,386	-	26,386	-
Accrued interest	289,966	-	289,966	-
Other	432,676	4,339	437,015	60,738
<i>Total receivables</i>	<u>1,112,460</u>	<u>4,339</u>	<u>1,116,799</u>	<u>60,738</u>
Internal balances	<u>8,377,444</u>	<u>(8,377,444)</u>	<u>-</u>	<u>-</u>
Capital assets:				
Assets held for sale	-	5,000,000	5,000,000	-
Land and construction in progress	17,310,305	-	17,310,305	-
Other capital assets, net of depreciation	48,026,481	5,838,915	53,865,396	258,200
<i>Total capital assets</i>	<u>65,336,786</u>	<u>10,838,915</u>	<u>76,175,701</u>	<u>258,200</u>
Deferred outflows - pension related	<u>95,397</u>	<u>-</u>	<u>95,397</u>	<u>258,965</u>
	<u>\$ 129,572,759</u>	<u>2,497,102</u>	<u>132,069,861</u>	<u>4,089,464</u>
Liabilities				
Accounts payable	\$ 4,779,464	5,202	4,784,666	312,441
Accrued payroll and taxes	-	-	-	411,532
Accrued vacation	70,536	-	70,536	35,511
Unearned revenue	489,495	-	489,495	46,947
Due to primary government	-	-	-	380,109
Debt payable	28,610,000	-	28,610,000	-
Net pension liability	1,332,935	-	1,332,935	2,298,515
<i>Total liabilities</i>	<u>35,282,430</u>	<u>5,202</u>	<u>35,287,632</u>	<u>3,485,055</u>
Deferred inflows - pension related	<u>153,999</u>	<u>-</u>	<u>153,999</u>	<u>251,506</u>
Net Position				
Net investment in capital assets	36,726,786	10,767,374	47,494,160	258,200
Reserved:				-
Forward funding	8,382,997	-	8,382,997	-
Construction	631,248	-	631,248	-
Permanent fund	38,751,990	-	38,751,990	-
Other	-	-	-	94,703
Unreserved:				
Designated for major maintenance	151,712	-	151,712	-
Undesignated	9,491,597	(8,275,474)	1,216,123	-
<i>Total net position</i>	<u>94,136,330</u>	<u>2,491,900</u>	<u>96,628,230</u>	<u>352,903</u>
	<u>\$ 129,572,759</u>	<u>2,497,102</u>	<u>132,069,861</u>	<u>4,089,464</u>

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Government-wide Statement of Activities

Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Business-type Activities	Component Unit
Primary governmental activities:							
General Fund	\$ 6,843,300	3,998,104	4,098,112	-	1,252,916	-	-
Capital improvements	449,007	-	-	-	(449,007)	-	-
Trust fund	41,684	-	-	-	(41,684)	-	-
Debt service	1,326,701	-	-	-	(1,326,701)	-	-
Bond construction	41,686	-	-	410,235	368,549	-	-
Maintenance reserve	140,782	-	-	-	(140,782)	-	-
<i>Total primary governmental activities</i>	<u>8,843,160</u>	<u>3,998,104</u>	<u>4,098,112</u>	<u>410,235</u>	<u>(336,709)</u>	<u>-</u>	<u>-</u>
Business-type activity - Hovercraft & Terminal	<u>2,044,725</u>	<u>1,862,088</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(182,637)</u>	<u>-</u>
Total primary government	<u>10,887,885</u>	<u>5,860,192</u>	<u>4,098,112</u>	<u>410,235</u>	<u>(336,709)</u>	<u>(182,637)</u>	<u>-</u>
Component unit - Aleutians East Borough School District	<u>\$10,366,493</u>	<u>123,692</u>	<u>578,080</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,664,721)</u>
				Primary Governmental Activities	Business-type Activities	Total	Component Unit
General revenues:							
Unrestricted investment earnings				\$ 2,113	-	2,113	-
Restricted investment earnings				1,474,312	-	1,474,312	-
Local contributions				-	-	-	1,353,212
State grants and entitlements				-	-	-	6,534,329
Federal sources				-	-	-	2,030,841
Miscellaneous				1,459,094	-	1,459,094	53,661
<i>Total general revenues</i>				<u>2,935,519</u>	<u>-</u>	<u>2,935,519</u>	<u>9,972,043</u>
Loss on impairment of Hovercraft				<u>-</u>	<u>(3,694,854)</u>	<u>(3,694,854)</u>	<u>-</u>
Change in net position				2,598,810	(3,877,491)	(1,278,681)	307,322
Net position, beginning of year				100,853,853	6,369,391	107,223,244	2,306,223
Prior Period Adjustment, GASB 68				(1,389,949)	-	(1,389,949)	(2,260,642)
Prior period adjustment				<u>(7,926,384)</u>	<u>-</u>	<u>(7,926,384)</u>	<u>-</u>
Net position, beginning of year, restated				<u>91,537,520</u>	<u>6,369,391</u>	<u>97,906,911</u>	<u>45,581</u>
Net position, end of year				<u>\$ 94,136,330</u>	<u>2,491,900</u>	<u>96,628,230</u>	<u>352,903</u>

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Exhibit B-1

Governmental Funds

Combining Balance Sheet

June 30, 2015

	Major Funds					Nonmajor Funds	Total Governmental Funds
	General	Capital Improvements	Trust Fund	Debt Service	Bond Construction		
Assets							
Cash and cash equivalents	\$ 300	-	-	-	-	-	300
Equity in central treasury	6,065,903	1,299,751	39,504,008	-	6,991,050	-	53,860,712
Investment in Southwest Governments, LLC	-	-	409,551	-	-	-	409,551
Receivables, net:							
State of Alaska	111,377	235,459	-	-	-	-	346,836
Federal	-	16,596	-	-	-	-	16,596
School	-	-	-	-	-	26,386	26,386
Accrued interest	4,345	-	274,630	-	10,991	-	289,966
Other	432,357	319	-	-	-	-	432,676
<i>Total receivables</i>	548,079	252,374	274,630	-	10,991	26,386	1,112,460
Due from Component Unit	380,109	-	-	-	-	-	380,109
Due from other funds	13,328,808	-	-	-	-	406,725	13,735,533
	<u>\$ 20,323,199</u>	<u>1,552,125</u>	<u>40,188,189</u>	<u>-</u>	<u>7,002,041</u>	<u>433,111</u>	<u>69,498,665</u>
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ 326,110	73,943	3,493	-	4,375,289	629	4,779,464
Unearned revenue	489,495	-	-	-	-	-	489,495
Due to other funds	-	1,584,176	1,432,706	64,933	2,276,274	-	5,358,089
<i>Total liabilities</i>	<u>815,605</u>	<u>1,658,119</u>	<u>1,436,199</u>	<u>64,933</u>	<u>6,651,563</u>	<u>629</u>	<u>10,627,048</u>
Fund balances:							
Committed:							
Forward funding	8,382,997	-	-	-	-	-	8,382,997
Construction	-	-	-	-	350,478	280,770	631,248
Permanent fund	-	-	38,751,990	-	-	-	38,751,990
Assigned:							
Designated for major maintenance	-	-	-	-	-	151,712	151,712
Unassigned	11,124,597	(105,994)	-	(64,933)	-	-	10,953,670
<i>Total fund balances (deficits)</i>	<u>19,507,594</u>	<u>(105,994)</u>	<u>38,751,990</u>	<u>(64,933)</u>	<u>350,478</u>	<u>432,482</u>	<u>58,871,617</u>
	<u>\$ 20,323,199</u>	<u>1,552,125</u>	<u>40,188,189</u>	<u>-</u>	<u>7,002,041</u>	<u>433,111</u>	<u>69,498,665</u>

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Governmental Funds**Reconciliation of Fund Balance to Net Position**Year Ended June 30, 2015*

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances - Total governmental funds	\$ 58,871,617
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	65,336,786
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Pension related deferred outflows of resources that are not financial resources and, therefore, are not reported in the funds:

Borough contributions subsequent to measurement date	94,628
Changes in proportion and differences between Borough contributions and proportional share of contributions	<u>769</u>
Total deferred inflows	<u>95,397</u>

General long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consist of:

Bonds payable	(28,610,000)
Net pension liability	<u>(1,332,935)</u>
Total long-term liabilities	(29,942,935)

Pension related deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds:

Net difference between projected and actual earnings on pension plan investments	<u>(153,999)</u>
Total deferred inflows	<u>(153,999)</u>

Compensated absences	<u>(70,536)</u>
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Net position of governmental activities	<u>\$ 94,136,330</u>
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See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Exhibit B-3

Governmental Funds

*Combining Statement of Revenues, Expenditures,
and Changes in Fund Balance*

Year Ended June 30, 2015

	Major Funds					Nonmajor Funds	Total Governmental Funds
	General Fund	Capital Improvements	Trust Fund	Debt Service	Bond Construction		
Revenues:							
Federal government	\$ 545,601	167,992	-	-	-	-	713,593
State of Alaska	3,552,511	242,243	-	-	-	-	3,794,754
Borough raw fish tax	3,998,104	-	-	-	-	-	3,998,104
Investment income	2,113	1,043	1,464,851	-	8,418	-	1,476,425
Other	284,668	900,000	-	-	-	274,426	1,459,094
<i>Total revenues</i>	<u>8,382,997</u>	<u>1,311,278</u>	<u>1,464,851</u>	<u>-</u>	<u>8,418</u>	<u>274,426</u>	<u>11,441,970</u>
Expenditures:							
Current:							
Mayor's office	257,270	-	-	-	-	-	257,270
Assembly	179,864	-	-	-	-	-	179,864
Clerk and planning management	205,204	-	-	-	-	-	205,204
Administration	348,535	-	-	-	-	-	348,535
Assistant administrator	149,109	-	-	-	-	-	149,109
Finance	259,738	-	-	-	-	-	259,738
Resource department	395,405	-	-	-	-	-	395,405
Public works	143,180	-	-	-	-	-	143,180
Other	2,269,133	-	-	-	-	-	2,269,133
Capital outlays	-	754,862	-	-	70,892	179,811	1,005,565
Principle	-	-	-	3,635,000	-	-	3,635,000
Interest	-	-	-	1,326,701	-	-	1,326,701
Trust fund	-	-	41,684	-	-	-	41,684
<i>Total expenditures</i>	<u>4,207,438</u>	<u>754,862</u>	<u>41,684</u>	<u>4,961,701</u>	<u>70,892</u>	<u>179,811</u>	<u>10,216,388</u>
Excess of revenues over (under) expenditures	<u>4,175,559</u>	<u>556,416</u>	<u>1,423,167</u>	<u>(4,961,701)</u>	<u>(62,474)</u>	<u>94,615</u>	<u>1,225,582</u>
Other financing sources (uses):							
Refunding bonds	-	-	-	2,205,000	-	-	2,205,000
Transfers from other funds	-	-	-	2,616,645	-	-	2,616,645
Transfers to other funds	(2,616,645)	-	-	-	-	-	(2,616,645)
<i>Total other financing sources (uses)</i>	<u>(2,616,645)</u>	<u>-</u>	<u>-</u>	<u>4,821,645</u>	<u>-</u>	<u>-</u>	<u>2,205,000</u>
Net change in fund balances	1,558,914	556,416	1,423,167	(140,056)	(62,474)	94,615	3,430,582
Fund balances (deficit), beginning of year	17,947,092	(662,410)	37,328,823	75,123	4,226,041	337,867	59,252,536
Prior period adjustment	1,588	-	-	-	(3,813,089)	-	(3,811,501)
Fund balances (deficit), beginning of year, restated	<u>17,948,680</u>	<u>(662,410)</u>	<u>37,328,823</u>	<u>75,123</u>	<u>412,952</u>	<u>337,867</u>	<u>55,441,035</u>
Fund balances (deficit), end of year	<u>\$ 19,507,594</u>	<u>(105,994)</u>	<u>38,751,990</u>	<u>(64,933)</u>	<u>350,478</u>	<u>432,482</u>	<u>58,871,617</u>

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Governmental Funds**Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance to the Statement of Activities**Year Ended June 30, 2015*

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - Total governmental funds \$ 3,430,582

Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capitalized outlays of \$501,751 were exceeded by depreciation of \$2,746,394 in the current period. (2,244,643)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This amount represent principal payments of \$3,635,000 net of proceeds from bond refunding of \$2,205,000 on long-term liabilities. 1,430,000

Governmental funds report compensated absences when taken; however, in the statement of activities, the cost of absences are expensed when earned. The amount of compensated absences earned and outstanding at the end of the year increased from \$53,407 to \$70,536. (17,129)

Total changes in net position of governmental activities \$ 2,598,810

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Exhibit B-5

General Fund and Annually Budgeted Special Revenue Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Year Ended June 30, 2015

	General Fund				Capital Improvements		
	Original	Final	Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)	Original/Final	Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
Revenues:							
Federal government	\$ 559,000	489,495	545,601	56,106	796,000	167,992	(628,008)
State of Alaska	3,614,169	3,165,042	3,552,511	387,469	-	242,243	242,243
Borough raw fish tax	3,200,779	3,998,105	3,998,104	(1)	-	-	-
Investment income	35,000	35,730	2,113	(33,617)	-	1,043	1,043
Other	43,256	60,155	284,668	224,513	-	900,000	900,000
<i>Total revenues</i>	<u>7,452,204</u>	<u>7,748,527</u>	<u>8,382,997</u>	<u>634,470</u>	<u>796,000</u>	<u>1,311,278</u>	<u>515,278</u>
Expenditures:							
Current:							
Mayor's office	263,259	260,601	257,270	3,331	-	-	-
Assembly	126,000	179,870	179,864	6	-	-	-
Clerk and planning management	255,467	208,828	205,204	3,624	-	-	-
Administration	329,703	350,270	348,535	1,735	-	-	-
Assistant administrator	145,603	149,176	149,109	67	-	-	-
Finance	247,951	259,741	259,738	3	-	-	-
Resource department	513,675	395,411	395,405	6	-	-	-
Public works	131,440	143,184	143,180	4	-	-	-
Special assistant	131,468	-	-	-	-	-	-
Other	1,903,345	1,881,944	2,269,133	(387,189)	-	-	-
Capital outlay	-	-	-	-	796,000	754,862	41,138
Principle	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Trust fund	-	-	-	-	-	-	-
<i>Total expenditures</i>	<u>4,047,911</u>	<u>3,829,025</u>	<u>4,207,438</u>	<u>(378,413)</u>	<u>796,000</u>	<u>754,862</u>	<u>41,138</u>
Excess of revenues over (under) expenditures	3,404,293	3,919,502	4,175,559	256,057	-	556,416	556,416
Other financing uses -							
Transfers (to) from other funds	(1,597,433)	(1,597,433)	(2,616,645)	1,019,212	-	-	-
<i>Total other financing uses</i>	<u>(1,597,433)</u>	<u>(1,597,433)</u>	<u>(2,616,645)</u>	<u>1,019,212</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other financing sources (under) over expenditures and other uses	<u>\$ 1,806,860</u>	<u>2,322,069</u>	1,558,914	<u>1,275,269</u>	<u>-</u>	556,416	<u>556,416</u>
Prior Period Adjustment, GASB 68			1,588			-	
Fund balances, beginning of year			<u>17,947,092</u>			<u>(662,410)</u>	
Fund balances (deficit), end of year			<u>\$ 19,507,594</u>			<u>(105,994)</u>	

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

General Fund and Annually Budgeted Special Revenue Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual, continued

	Trust fund			Debt Service Fund		
	Original/Final	Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)	Original/Final	Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
Revenues:						
Federal government	\$ -	-	-	-	-	-
State of Alaska	-	-	-	-	-	-
Borough raw fish tax	-	-	-	-	-	-
Investment income	350,000	1,464,851	1,114,851	-	-	-
Other	-	-	-	-	-	-
<i>Total revenues</i>	<u>350,000</u>	<u>1,464,851</u>	<u>1,114,851</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:						
Current:	-	-	-	-	-	-
Mayor's office	-	-	-	-	-	-
Assembly	-	-	-	-	-	-
Clerk and planning management	-	-	-	-	-	-
Administration	-	-	-	-	-	-
Finance	-	-	-	-	-	-
Resource department	-	-	-	-	-	-
Public works	-	-	-	-	-	-
Special assistant	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Principle	-	-	-	875,000	3,635,000	(2,760,000)
Interest	-	-	-	722,433	1,326,701	(604,268)
Trust fund	35,000	41,684	(6,684)	-	-	-
<i>Total expenditures</i>	<u>35,000</u>	<u>41,684</u>	<u>(6,684)</u>	<u>1,597,433</u>	<u>4,961,701</u>	<u>(3,364,268)</u>
Excess of revenues over (under) expenditures	315,000	1,423,167	1,108,167	(1,597,433)	(4,961,701)	(3,364,268)
Other financing sources -						
Refunding bonds	-	-	-	-	2,205,000	(2,205,000)
Transfers from other funds	-	-	-	1,597,433	2,616,645	1,019,212
<i>Total other financing sources</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,597,433</u>	<u>4,821,645</u>	<u>(1,185,788)</u>
Excess of revenues and other financing sources over (under) expenditures and other uses	<u>\$ 315,000</u>	<u>1,423,167</u>	<u>1,108,167</u>	<u>(2,616,645)</u>	<u>(140,056)</u>	<u>(4,550,056)</u>
Fund balances, beginning of year		<u>37,328,823</u>			<u>75,123</u>	
Fund balances, end of year		<u>\$ 38,751,990</u>			<u>(64,933)</u>	

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*General Fund and Annually Budgeted Special Revenue Funds**Statement of Revenues, Expenditures, and Changes in
Fund Balances - Budget and Actual, continued*

	Bond Construction		
	Original/Final	Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
Revenues:			
Federal government	\$ -	-	-
State of Alaska	-	-	-
Borough raw fish tax	-	-	-
Investment income	-	8,418	8,418
Other	5,000,000	-	(5,000,000)
<i>Total revenues</i>	<u>5,000,000</u>	<u>8,418</u>	<u>(4,991,582)</u>
Expenditures:			
Current:	-	-	-
Mayor's office	-	-	-
Assembly	-	-	-
Clerk and planning management	-	-	-
Administration	-	-	-
Finance	-	-	-
Resource department	-	-	-
Public works	-	-	-
Special assistant	-	-	-
Other	-	-	-
Capital outlay	5,000,000	70,892	4,929,108
Principle	-	-	-
Interest	-	-	-
Trust fund	-	-	-
<i>Total expenditures</i>	<u>5,000,000</u>	<u>70,892</u>	<u>4,929,108</u>
Excess of revenues under expenditures	-	(62,474)	(62,474)
Other financing sources -			
Transfers from other funds	-	-	-
<i>Total other financing sources</i>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other financing sources under expenditures and other uses	<u>\$ -</u>	<u>(62,474)</u>	<u>(62,474)</u>
Fund balance, beginning of year		4,226,041	
Prior period adjustment		(3,813,089)	
Fund balance, beginning of year restated		<u>412,952</u>	
Fund balance, end of year		<u><u>\$ 350,478</u></u>	

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Exhibit C-1

Business-type Activities - Hovercraft, Terminal, and Helicopter

Combining Statement of Net Position

June 30, 2015

	Hovercraft	Terminal	Helicopter	Total
Assets				
Deposits	\$ 31,292	-	-	31,292
Receivables, net	4,339	-	-	4,339
Assets held for sale	5,000,000	-	-	5,000,000
Equipment, net of accumulated depreciation	-	5,767,374	71,541	5,838,915
<i>Total assets</i>	<u>\$ 5,035,631</u>	<u>5,767,374</u>	<u>71,541</u>	<u>10,874,546</u>
Liabilities				
Accounts payable	\$ 5,202	-	-	5,202
Due to other funds	5,375,796	1,246,571	1,755,077	8,377,444
<i>Total liabilities</i>	<u>5,380,998</u>	<u>1,246,571</u>	<u>1,755,077</u>	<u>8,382,646</u>
Net Position				
Unrestricted:				
Contributions in aid, net	5,000,000	5,767,374	-	10,767,374
Unrestricted	(5,345,367)	(1,246,571)	(1,683,536)	(8,275,474)
<i>Total net position</i>	<u>(345,367)</u>	<u>4,520,803</u>	<u>(1,683,536)</u>	<u>2,491,900</u>
	<u>\$ 5,035,631</u>	<u>5,767,374</u>	<u>71,541</u>	<u>10,874,546</u>

The notes to the financial statements are an integral part of this statement.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Business-type Activities - Hovercraft, Terminal, and Helicopter**Combining Statement of Revenues, Expenses
and Changes in Net Position**Year Ended June 30, 2015*

	<u>Hovercraft</u>	<u>Terminal</u>	<u>Helicopter</u>	<u>Total</u>
Revenues	<u>\$ 1,179,527</u>	<u>141,507</u>	<u>541,054</u>	<u>1,862,088</u>
Operating expenses:				
Salaries and benefits	-	28,741	114,774	143,515
Contract labor	-	-	1,351,301	1,351,301
Travel and per diem	-	-	4,500	4,500
Telephone	-	3,488	2,860	6,348
Supplies	-	7,535	42,163	49,698
Equipment	-	-	5,935	5,935
Rent	-	9,400	13,500	22,900
Utilities	-	26,446	900	27,346
Insurance	-	-	16,945	16,945
Fuel	-	22,825	121,004	143,829
Depreciation	-	252,897	19,511	272,408
<i>Total operating expenses</i>	<u>-</u>	<u>351,332</u>	<u>1,693,393</u>	<u>2,044,725</u>
Excess of revenues under expenditures	<u>1,179,527</u>	<u>(209,825)</u>	<u>(1,152,339)</u>	<u>(182,637)</u>
Nonoperating expenses:				
Loss on impairment of Hovercraft	<u>(3,694,854)</u>	<u>-</u>	<u>-</u>	<u>(3,694,854)</u>
<i>Total nonoperating expenses</i>	<u>(3,694,854)</u>	<u>-</u>	<u>-</u>	<u>(3,694,854)</u>
Net decrease in net position	<u>(2,515,327)</u>	<u>(209,825)</u>	<u>(1,152,339)</u>	<u>(3,877,491)</u>
Net position, beginning of year	<u>2,169,960</u>	<u>4,730,628</u>	<u>(531,197)</u>	<u>6,369,391</u>
Net positon, end of year	<u>\$ (345,367)</u>	<u>4,520,803</u>	<u>(1,683,536)</u>	<u>2,491,900</u>

The notes to the financial statements are an integral part of this statement.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Exhibit C-3

Business-type Activities - Hovercraft, Terminal, and Helicopter

Combining Statement of Cash Flows

Year Ended June 30, 2015

	<u>Hovercraft</u>	<u>Terminal</u>	<u>Helicopter</u>	<u>Total</u>
Increase (decrease) in cash and cash equivalents -				
Cash flows from operating activities:				
Cash payments from customers	\$ 1,478,118	141,507	541,054	2,160,679
Cash payments from other sources	(1,380,184)	(43,072)	1,132,828	(290,428)
Cash payments for goods and services	(97,934)	(69,694)	(1,559,108)	(1,726,736)
Cash payments for salaries and benefits	-	(28,741)	(114,774)	(143,515)
<i>Net cash provided by operating activities</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase in cash	-	-	-	-
Cash and cash equivalents, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents, end of year	<u><u>\$ -</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Reconciliation of operating loss to net cash provided by operating activities:				
Change in retained earnings	\$ (2,515,327)	(209,825)	(1,152,339)	(3,877,491)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Loss on impairment of asset	3,694,854	-	-	3,694,854
Depreciation	-	252,897	19,511	272,408
Decrease (increase) in current assets:				
Receivables, net	298,591	-	-	298,591
Deposits	(5,215)	-	-	(5,215)
Increase (decrease) in current liabilities:				
Accounts payable	(92,719)	-	-	(92,719)
Increase in due to other funds	<u>(1,380,184)</u>	<u>(43,072)</u>	<u>1,132,828</u>	<u>(290,428)</u>
Net cash provided by operating activities	<u><u>\$ -</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

The notes to the financial statements are an integral part of this statement.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Deferred Compensation Agency Fund

Statement of Fiduciary Net Position

June 30, 2015

Assets

Property and rights held under deferred compensation plan	<u>\$ 725,552</u>
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Net Position

Obligations to employees under deferred compensation plan	<u>\$ 725,552</u>
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THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Aleutians East Borough (Borough) was incorporated October 23, 1987, under the laws of the State of Alaska as a second-class borough. All significant activities with which the Borough exercises oversight responsibilities have been included in the Borough's general purpose financial statements.

The accompanying financial statements include all activities of the Borough and The Aleutians East Borough School District (School District). The Borough Assembly, as the oversight authority, approves the total annual budget of the School District and also makes annual contributions to it. Based on financial interdependence, budget approval, responsibility for debt, and accountability and control of fiscal matters, The School District is a component unit of the Borough. The School District's audited financial statements may be obtained from The School District.

No other entities exist over which the Borough has oversight responsibility.

Component Unit

The School District is a component unit of the Borough. The School District was formed July 1, 1988, as a result of the formation of the Borough on the same date. The School District was formed by incorporating King Cove City School District and Sand Point City School District. In addition, the following locations were added from Aleutian Region School District: Cold Bay, False Pass, Nelson Lagoon, and Akutan.

As the School District is organized as a government, its financial statements are prepared using accounting principles generally accepted in the United States of America as related to government organizations. As such, the financial statements are prepared using the current financial resources measurement focus and accrual method of accounting.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and statement of activities) report information in all nonfiduciary activities of the Borough. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include grants and contributions that are restricted to meeting the operations or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental fund types. Major individual governmental funds are reported in separate columns in the fund financial statements.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Government-wide and Fund Financial Statements, continued

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenditures are recorded when liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Net position should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2015, the Borough had no restricted net position.

Measurement Focus, Basis of Accounting, and Basis of Presentation

The financial statements of the Borough are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Borough's reporting entity applies all relevant GASB pronouncements and applicable Financial Accounting Standards Assembly (FASB) pronouncements and Accounting Principles Assembly (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Borough's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurement focus and accrual basis of accounting includes reclassification or elimination of internal activity (between or within funds). Financial statements of Borough component units also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The governmental fund financial statements report used the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Borough considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

When both restricted and unrestricted resources are available for use, it is the Borough's policy to use restricted resources first, then unrestricted resources as needed.

Fund Types and Major Funds,

Aleutians East Borough reports the following major funds:

- General Fund - Reports as the primary fund of the Borough. This fund is used to account for all financial resources not reported in other funds.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued **Fund Types and Major Funds, continued**

- Capital Projects - Accounts for all revenue received and expenditures made for the development and administration of capital projects.
- Trust Fund - Accounts for all revenue received and expenditures made for the development and administration of the trust fund.
- Debt Service – Accounts for all expenditures made for the retirement of and interest on debt.
- Bond Construction – Accounts for all expenditures made on projects funded by bond proceeds.
- Business-type activity – Hovercraft, Terminal, and Helicopter – Accounts for all activity for the operations of the hovercraft and helicopter.

Assets, Liabilities, and Equity

Deposits and Investments - The Borough's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposits, and short-term investments with original maturities of 3 months or less from the date of acquisition.

Receivables and Payables - All outstanding balances between funds are reported as "due to/from other funds." These balances represent the numerous transactions that occur during the course of operations between individual funds for goods provided or services rendered. The direct write-off method is used for estimated uncollectible accounts receivable.

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets - The Borough's property, plant, equipment, and infrastructure with useful lives of more than 1 year are stated at historical cost and comprehensively reported in government-wide financial statements. The Borough maintains infrastructure asset records consistent with all other capital assets. Component unit capital assets are also reported in their respective fund and combining component unit financial statements. Donated assets are stated at fair value on the date donated. The Borough generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives in years for depreciable assets are as follows:

Buildings	25
Infrastructure	30
Furniture, Vehicles and equipment	3 to 7

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Compensated Absences - It is the Borough's policy to permit employees to accumulate earned but unused annual leave. Compensated absences are reported as accrued in government-wide and component unit financial statements. Governmental funds report only matured compensated absences payable to currently terminated employees and are included in wages and benefits payable.

Unearned Revenue - Amounts for which asset recognition criteria have been met but for which revenue recognition criteria have not been met are recorded as deferred revenue.

Long-term Debt - In government-wide and component unit financial statements, outstanding debt is reported as liabilities. Governmental fund financial statements recognize proceeds of debt and premiums as other financing sources of the current period.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Equity - In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources, they are either (a) not in spendable form - prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balances comprises the remaining four classifications: restricted, assigned, and unassigned.

Committed fund balance - These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the tribal council-the government's highest level of decision making authority. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance - This classification reflects the amounts constrained by the Borough's assembly members "intent" to be used for specific purposes, but are neither restricted nor committed.

Unassigned fund balance - This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the Borough's policy to use restricted resources first, then unrestricted resources as needed.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

Use of Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The Borough Assembly is required to approve an annual budget before the start of the new fiscal year. Public hearings are conducted to obtain taxpayer comments. The budget is legally enacted through passage of an ordinance. Budgets are prepared and presented on the modified accrual basis of accounting. Any revisions to the budget must be approved by passage of an ordinance by the Assembly. The Borough Assembly authorizes formal budget revisions several times each year to adjust revenues and expenditures to available resources and program needs. The final revised and approved budget is presented in these financial statements.

Beginning in fiscal year 2003, the Borough is forward funding its general fund expenditures and reserving general fund balance to the extent of current-year general fund revenue except coastal management and LEPC grants.

NOTE 3 - CASH AND INVESTMENTS

The Borough's investment policy authorizes the Borough to invest in U.S. Treasury securities; obligations guaranteed by the U.S. government or its agencies or instrumentalities; repurchase agreements; certificates of deposit; bonds and notes which are issued by any state or political subdivision thereof which are graded "A" or higher by Moody's Investor's Service, Inc.; prime commercial paper graded "A1" or higher by Moody's Investor's Service, Inc.; banks and savings and loan associations to the extent that deposits are insured by Federal Depository Insurance Corporation or Federal Savings and Loan Insurance Corporation; obligations of corporations, provided the obligations are graded "Baa" or higher by Moody's Investor's Service Inc., or Standard and Poor's Corporation and issued in the United States and denominated in US dollars, not more than 15% of the fixed income portfolio may be held in Baa rated securities; The Alaska Municipal League Investment Pool, Inc.; and Income producing real estate investments. Additionally, the policy authorizes the Borough invest permanent fund assets to maintain safety of principle while maximizing the total return. Investments shall be diversified to minimize the risk of loss resulting from a concentration of investments in a specific maturity, issuer, class of security, financial institution, or with respect to equity investments, in a specific company, industry or investment sector. Fund assets may be invested in the instruments and securities set out in the following securities: Domestic Equities, which taken as a whole, attempt to replicate the Standard and Poor's 500 Index, including both mutual funds and exchange traded funds (ETF's); International Equities, which taken as a whole, attempt to replicate the Morgan Stanley Europe, Australiasia, Far East (EAFE) Index, including both mutual funds and exchange traded funds (ETF's); Equities, which take as a whole, attempt to replicate the universe of domestic real estate investment trusts as represented by the S&P REIT index or the Cohen and Steers Realty Majors Portfolio Index, including both mutual funds and exchange traded funds (ETF'S); and Domestic Equities, which taken as a whole, attempt to replicate the Standard and Poor's 400 Midcap Index, including both moth mutual funds and exchange traded funds (ETF's).

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 3 - CASH AND INVESTMENTS, continued

The permanent fund may invest up to 35 percent of total invested permanent funds in common and preferred stock listed on a recognized exchange and a mutual fund designed to replicate the Standard and Poor's 500 Index. The permanent fund may also invest in international equities up to a maximum of 5 percent of the total permanent fund. Performance measurement for the Fixed Income Allocation will be measured against the Target weighting using the Lehman Intermediate Gov/Credit Index for the Benchmark.

The duration of the Fixed Income Allocation should be maintained between 80% and 120% of the duration of the Benchmark.

Statutes require that the Borough's deposits in excess of FDIC or FSLIC limits be collateralized by government securities, at year end the borough had \$126,996 of uncollateralized funds. Cash resources for some of the various funds are maintained in a central treasury represented by a sweep checking account and certificate of deposit. Cash is swept and commingled with the School District's moneys within Borough accounts on a daily basis.

The Borough participates in the Alaska Municipal League Investment Pool (AMLIP). This investment pool consists of governmental investors within the State of Alaska. AMLIP does not carry its own institutional insurance or collateralization for funds it invests. The organizing document does state that certificates of deposit must be collateralized or covered by federal insurance by the issuing entity. The carrying amount and market value at June 30, 2015, was \$50,798.

Cash and investment balances are as follows:

	Bank Balance	Book Balance
Cash and cash equivalents per Primary government	\$ 5,992,088	5,394,218
Cash and cash equivalents per Component Unit	3,438,146	3,438,146
Investments, at fair market value	<u>48,466,794</u>	<u>48,466,794</u>
	<u>\$ 57,897,028</u>	<u>57,299,158</u>

Components of investment activity at June 30, 2015 was as follows:

Interest	\$ 618,900
SW Governments, LLC	32,265
Dividends	521,244
Fees	(16,755)
Realized gains	559,546
Unrealized gains	<u>(238,775)</u>
	<u>\$ 1,476,425</u>

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 3 - CASH AND INVESTMENTS, continued

Investment income affected the following funds at June 30, 2015:

General Fund - unreserved	\$	2,113
Capital Improvements - reserved		1,043
Trust Fund - reserved		1,464,851
Bond Construction - unreserved		<u>8,418</u>
	\$	<u>1,476,425</u>

NOTE 4 – CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2015, follows:

	June 30, 2014	Additions	Retirements	June 30, 2015
Governmental funds:				
Capital assets not being depreciated:				
Land	\$ 5,323,074	-	-	5,323,074
Construction in process	<u>11,613,142</u>	<u>374,089</u>	<u>-</u>	<u>11,987,231</u>
<i>Total capital assets not being depreciated</i>	<u>16,936,216</u>	<u>374,089</u>	<u>-</u>	<u>17,310,305</u>
Other Capital assets:				
Buildings and improvements	45,318,426	-	-	45,318,426
Infrastructure	62,245,095	-	-	62,245,095
Furniture and equipment	730,341	28,917	-	759,258
Vehicles	<u>182,344</u>	<u>98,745</u>	<u>-</u>	<u>281,089</u>
	108,476,206	127,662	-	108,603,868
Less accumulated depreciation	<u>(57,830,993)</u>	<u>(2,746,394)</u>	<u>-</u>	<u>(60,577,387)</u>
<i>Total capital assets - governmental funds</i>	<u>\$ 67,581,429</u>	<u>(2,244,643)</u>	<u>-</u>	<u>65,336,786</u>
Enterprise funds:				
Hovercraft	\$ 11,402,642	-	(6,402,642)	5,000,000
Terminal	7,403,571	-	-	7,403,571
Helicopter	<u>97,556</u>	<u>-</u>	<u>-</u>	<u>97,556</u>
	18,903,769	-	(6,402,642)	12,501,127
Less accumulated depreciation	<u>(3,297,836)</u>	<u>(272,408)</u>	<u>1,908,032</u>	<u>(1,662,212)</u>
<i>Total capital assets - enterprise funds:</i>	<u>\$ 15,605,933</u>	<u>(272,408)</u>	<u>(10,897,252)</u>	<u>10,838,915</u>

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Notes to Financial Statements, continued

NOTE 4 – CAPITAL ASSETS, continued

Depreciation expense of \$2,746,394 was charged to the general fund, depreciation expense of \$272,408 was charged to the enterprise funds, and was allocated to the terminal and helicopter in the amount of \$252,897 and \$19,511 respectively.

Construction in progress is stated at cost, which includes the cost of construction and other direct costs attributable to the construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use. Construction in progress at June 30, 2015, represents infrastructure not yet placed in service.

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables are shown as “due to” and “due from” in each individual fund within the governmental fund financial statements. These balances represent short-term interfund borrowings at June 30, 2015, and were as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Major funds:		
General fund	\$ 13,328,808	-
Capital Improvements	-	1,584,176
Trust Fund	-	1,432,706
Debt Service	-	64,933
Bond Construction	-	2,276,274
Business-type activity - Hovercraft and terminal	-	8,377,444
<i>Total Major Funds</i>	<u>13,328,808</u>	<u>13,735,533</u>
Nonmajor funds:		
Maintenance Reserve	125,955	-
King Cove Access Project	280,770	-
<i>Total Nonmajor Funds</i>	<u>406,725</u>	<u>-</u>
	<u>\$ 13,735,533</u>	<u>13,735,533</u>

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 6 - LONG-TERM DEBT

Following is a summary of general obligation bond transactions of the Borough for the year ended June 30, 2015:

Bonds payable at July 1, 2014	\$ 30,385,000
Bond refunding	2,205,000
Prior year adjustment	(345,000)
Principal payments	<u>(3,635,000)</u>

Bonds payable at June 30, 2015	<u>\$ 28,610,000</u>
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General obligation bonds payable at June 30, 2015, are comprised of the following:

\$5,000,000 - 2011 Akutan Airport and King Cove Access Project due in variable installments ranging from \$175,000 to \$1,560,000 through October 1, 2031; interest rate is variable from 2.0 to 5.4 percent	\$ 4,155,000
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\$21,095,000 - 2007 Refunding of Aleutians East Borough bonds due in variable installments ranging from \$53,550 to \$2,433,550 through December 1, 2028; interest rate is variable from 3.75 to 5.0 percent	19,600,000
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\$3,460,000 - 2011 Refunding of Aleutians East Borough bonds due in variable installments ranging from \$65,000 to \$905,000 through September 2021; interest rate is variable from 2.0 to 5.0 percent	2,650,000
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\$2,205,000 - 2015 Refunding of Aleutians East Borough bonds due in variable installments ranging from \$2,375 to \$383,123 through October 1, 2025; interest rate is variable from 2.0 to 5.0 percent	<u>2,205,000</u>
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Total bonds payable	<u>\$ 28,610,000</u>
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THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Notes to Financial Statements, continued***NOTE 6 - LONG-TERM DEBT, continued**

Annual requirements to amortize all Borough general obligation bonds and leases payable as of June 30th follow:

		Principal	Interest	Total
Year ending				
	2016	\$ 1,335,000	1,265,689	2,600,689
	2017	1,445,000	1,206,691	2,651,691
	2018	1,530,000	1,142,991	2,672,991
	2019	1,625,000	1,072,816	2,697,816
	2020	1,715,000	995,228	2,710,228
	2021-2025	10,220,000	3,663,835	13,883,835
	2026-2030	10,420,000	1,114,760	11,534,760
	2030-2034	320,000	8,701	328,701
		<u>\$ 28,610,000</u>	<u>10,470,711</u>	<u>39,080,711</u>

NOTE 7 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess of expenditures over appropriations in individual funds for the current year were:

	Budget	Actual Expenditures	Over Budget
General fund	\$ 3,829,025	4,207,438	(378,413)
Debt service	1,597,433	4,961,701	(3,364,268)
Trust fund	35,000	41,684	(6,684)
	<u>\$ 1,632,433</u>	<u>5,003,385</u>	<u>(3,370,952)</u>

NOTE 8 – DEFINED BENEFIT (DB) PENSION PLANS

Aleutian East Borough (AEB) participates in one defined benefit pension plan. The Public Employees' Retirement System (PERS) is a cost-sharing multiple employer plan which covers eligible State and local government employees, other than teachers. The Plan was established and is administered by the State of Alaska to provide pension, postemployment healthcare, death, and disability benefits. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

The Plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. The report is available via the internet at <http://doa.alaska.gov/drdb>. Actuarial valuation reports, audited financial statements, and other detailed plan information are also available on this website.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 8 – DEFINED BENEFIT (DB) PENSION PLANS, continued

The Plan provides for retirement, death and disability, and post-employment health care benefits. There are three tiers of employees, based on entry date. For all tiers within the DB pension plans, full retirement benefits are generally calculated using a formula comprised of a multiplier times the average monthly salary (AMS) times the number of years of service. The multiplier is increased at longevity milestone markers for most employees. The tiers within the Plan establishes differing criteria regarding normal retirement age, early retirement age, and the criteria for calculation of AMS, COLA adjustments, and other OPEB benefits. A complete benefit comparison chart is available at the website noted above.

The PERS DB Plan was closed to new entrants on July 1, 2006. New employees hired after that date participate in the PERS Defined Contribution (DC) Plan described later in these notes.

Historical Context and Special Funding Situation

Originally, PERS was an agent multiple-employer plan. In April 2008, the Alaska Legislature passed legislation converting the PERS agent-multiple employer plan to a cost-sharing plan with an effective date of July 1, 2008. In connection with this conversion, the State of Alaska passed additional legislation which statutorily capped the employer contribution rate, established a state funded “onbehalf” contribution (subject to funding availability), and required that employer contributions be calculated against *all* PERS eligible wages, including wages paid to participants of the PERS defined contribution plan described later in these footnotes.

Although current statutes call for the State of Alaska to contribute to the Plan, the Alaska Department of Law has determined that the statutes do not create a legal obligation to assume the liabilities of the Plan; rather it establishes a contribution mechanism to provide employer relief against the rising contribution rates. This relief payment is subject to funding availability, and therefore not legally mandated. As a result, the State has determined that the Plan is *not* in a special funding situation.

Management of AEB believes that AS 39.35.255 and AS 39.35.280 do constitute a special funding situation under GASB 68 rules and has recorded all pension related liabilities, deferred inflows/outflows, and disclosures on this basis, pending a final legal determination, as may be required to settle the matter.

AEB records the on-behalf contributions as revenue and expenditures in the fund financial statements. However, current year expenditures are adjusted to deferred outflows in the government-wide financial statements. Prior year expenditures and on-behalf contributions (and other adjustments) reflect expenses at the government-wide level.

Employee Contribution Rates

Employees are required to contribute 9.6% of their annual covered salary for PERS.

Employer and Other Contribution Rates

There are several contribution rates associated with the pension and healthcare contributions and related liabilities. These amounts are calculated on an annual basis.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Notes to Financial Statements, continued

NOTE 8 – DEFINED BENEFIT (DB) PENSION PLANS, continued

Employer Effective Rate: This is the contractual employer pay-in rate. Under current legislation, this rate is statutorily capped at 22% of eligible wages for PERS, subject to a wage floor, and other termination events. These rates are applied to all PERS participating wages, including those wages attributable to employees in the defined contribution plan. Contributions derived from the defined contribution employees are referred to as the Defined Benefit Unfunded Liability or DBUL contribution.

ARM Board Adopted Rate: This is the rate formally adopted by the Alaska Retirement Management Board. This rate is actuarially determined and used to calculate annual Plan funding requirements, without regard to the statutory rate cap or the GASB accounting rate. Prior to July 1, 2015, there were no constraints or restrictions on the actuarial cost method or other assumptions used in the ARM Board valuation. Effective July 1, 2015, the Legislature requires the ARM Board to adopt employer contribution rates for past service liabilities using a level percent of pay method over a closed 25 year term which ends in 2039. This will result in lower ARM Board rates in future years.

On-behalf Contribution Rate: This is the rate normally paid in by the State as an on-behalf payment under the current statute. The statute requires the State to contribute, based on funding availability, an on-behalf amount equal to the difference between the ARM Board Rate and the Employer Effective Rate. However, in 2015, the State Legislature appropriated a onetime contribution to the Plan in the amount of \$1 billion for PERS. As a result, the On-behalf Contribution Rate for 2015 significantly exceeds the statutory amounts. As noted earlier, the on-behalf contributions are recognized in the fund financial statements as revenues and expenditures in the year they are appropriated by the State. In the governmentwide financial statements, such on-behalf contributions in the subsequent measurement period, result in a one year lag.

GASB Rate: This is the rate used to determine the long-term pension and healthcare liability for plan accounting purposes in accordance with generally accepted accounting principles as established by GASB. Certain actuarial methods and assumptions for this rate calculation are mandated by GASB. Additionally, the GASB rate disregards all future Medicare Part D payments. For FY15, the GASB rate uses an 8.00% pension discount rate and a 4.90% healthcare discount rate for PERS. The GASB rate and the ARM Board Adopted Rate differ significantly as a direct result of variances in the actuarial methods and assumptions used.

Contribution rates for the year ended June 30, 2015 were determined in the June 30, 2013 actuarial valuation.

	Contractual	ARM Board	State	
Pers Rates - 2015	Rate	Adoption Rate	Contribution Rate	GASB Rate
Pension	12.54%	25.09%	42.41%	33.05%
Postemployment Health Care	9.46%	18.94%	0.00%	55.07%
Total Contribution Rate	22.00%	44.03%	42.41%	88.12%

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Notes to Financial Statements, continued***NOTE 8 – DEFINED BENEFIT (DB) PENSION PLANS, continued**

In 2015, AEB was credited with the following contributions into the pension plan.

	Measurement Period	
	FY14	FY15
Employer contributions (including DBUL)	\$ 109,613	124,966
Nonemployer contributions (on-behalf)	64,365	387,469
Total Contributions	\$ 173,978	512,435

In addition, employee contributions to the Plan totaled \$43,908 during the 2015 fiscal year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, AEB reported a liability for its proportionate share of the net pension liability that reflected a reduction for State support provided to AEB. The amount recognized by the AEB as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability associated with AEB were as follows:

	Net Pension Liability
Borough's proportionate share of NPL	\$ 1,332,935
State's proportionate share of NPL associated with the Borough	782,704
Total	\$ 2,115,639

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. AEB's proportion of the net pension liability was based on a projection of AEB's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2014, AEB's proportion of PERS was 0.02857837 percent, which was an increase of 0.0000259 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, AEB recognized pension expense of \$96,216 for PERS. In addition, AEB recognized on-behalf revenue from the State of Alaska in the amount of \$387,469 for PERS. At June 30, 2015, the AEB reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Notes to Financial Statements, continued

NOTE 8 – DEFINED BENEFIT (DB) PENSION PLANS, continued

	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between expected and actual experience	\$ -	-
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	153,999
Changes in proportion and differences between employer contributions and proportionate share of contributions	769	-
Employer contributions subsequent to the measurement date	<u>94,628</u>	<u>-</u>
Total	<u><u>\$ 95,397</u></u>	<u><u>153,999</u></u>

\$94,628 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,

2015	\$ (37,908)
2016	(38,322)
2017	(38,500)
2018	(38,500)
2019	-
Thereafter	-

Actuarial Assumptions

The total pension liability was determined by actuarial valuations as of June 30, 2013, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2014. The actuarial valuations for the year ended June 30, 2014 (latest available) were prepared by Buck Consultants. The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2005 to June 30, 2009, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience. Generally, PERS follows the same assumptions, except as noted:

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Notes to Financial Statements, continued***NOTE 8 – DEFINED BENEFIT (DB) PENSION PLANS, continued**

Inflation	3.12%
Salary Increases	Graded by age and service, from 9.6% to 3.62% for PERS
Investment Return / Discount Rate	8.00% net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and real rate of return over 4.88%.
Mortality	Rates based on the 1994 Group Annuity Mortality Table, sex distinct, 1994 Base year without margin projected to 2013 using Projection Scale AA: PERS - 75% for male and 55% for female for pre-termination for all others; and 100% for males and 1-year set-forward for females for post-termination.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of arithmetic real rates of return for each major asset class are summarized in the following table (note that the rates shown below exclude the inflation component):

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad domestic equity	26.00%	5.40%
Global Ex-U.S. equity	25.00%	5.55%
Fixed composite	12.00%	0.75%
Real estate	9.00%	3.95%
Private equity	17.00%	6.40%
Absolute return	5.00%	2.85%
Alternative equity strategies	3.00%	2.85%
Cash equivalents	3.00%	0.25%

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 8 – DEFINED BENEFIT (DB) PENSION PLANS, continued

Discount Rate

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that Employer and State contributions will continue to follow the current funding policy which meets State statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate Sensitivity

The following presents the Retirement System's net pension liability and AEB's proportionate share of the net pension liability calculated using the discount rate of 8.00 percent, as well as what AEB's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00 percent) or 1 percentage point higher (9.00 percent) than the current rate:

	Proportional Share	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
System Net Pension Liability	100.0%	\$ 6,115,581,980	4,664,138,458	3,441,888,494
Borough's proportionate share of the net pension liability	0.02857837%	1,747,734	1,332,935	983,636

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial reports.

NOTE 9 – DEFINED CONTRIBUTION (DC) PENSION PLAN

Employees hired on or after July 1, 2006 participate in PERS Tier IV, a defined contribution plan. This Plan is administered by the State of Alaska, Department of Administration in conjunction with the defined benefit plan noted above. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Alaska Retirement Management Board may also amend contribution requirements. Included in the Plan are individual pension accounts, retiree medical insurance plan, and a separate Health Reimbursement Arrangement account that will help retired members pay medical premiums and other eligible medical expenses not covered by the medical plan. This Plan is included in the comprehensive annual financial report for PERS, and at the following website, as noted above. <http://doa.alaska.gov/drbb>.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 9 – DEFINED CONTRIBUTION (DC) PENSION PLAN, continued

Contributions to the DC plans consist solely of employer and employee contributions with no special funding or other nonemployer contributions. In addition, actual remittances to the PERS system require that the AEB contribute at 22%. After deducting the DC pension plan contributions and related DC OPEB contributions, the remaining remittance (the DBUL) is deposited into the DB plan (pension and/or OPEB) as noted earlier.

Benefit Terms

Employees are immediately vested in their own contributions and vest 25% with two years of service, plus an additional 25% per year thereafter for full vesting at five years of service.

Employee Contribution Rate

Employees are required to contribute 8.0% of their annual covered salary for PERS. This amount goes directly to the individual's account.

Employer Contribution Rate

For the year ended June 30, 2015, the AEB was required to contribute 5% of covered salary into PERS.

AEB and employee contributions to PERS for pensions for the year ended June 30, 2015 were \$9,575 and \$15,319, respectively.

AEB's contributions are recognized as pension expenditures.

NOTE 10 – Other Post-Employment Benefit (OPEB) Plans

Defined Benefit OPEB

As part of its participation in the PERS Plan (Tiers I, II, and III), AEB participates in the Alaska Retiree Healthcare Trust (ARHCT). The ARHCT is self-funded and provides major medical coverage to retirees of the System. Benefits vary by Tier level. The Plan is administered by the State of Alaska, Department of Administration. Employer contribution rates are established in concert with the Defined Benefit Pension Plan described earlier in these notes.

Employer Contribution Rates

AEB is required to contribute 9.46% of covered payroll into the PERS OPEB plan. In addition, during 2015, the State on-behalf contribution into the PERS OPEB plan was 0% of covered payroll.

Employees do not contribute to the DB OPEB plans.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Notes to Financial Statements, continued***NOTE 10 – Other Post-Employment Benefit (OPEB) Plans, continued***Annual Postemployment Healthcare Cost*

Actual contributions into the plan for the last three years were as follows:

<u>Year Ended June 30,</u>	<u>Annual OPEB Costs</u>	<u>Borough Contributions</u>	<u>% of Costs Contributed</u>
2015	\$ 71,387	71,387	100%
2014	120,609	120,609	100%
2013	131,070	131,070	100%

On-behalf contributions for PERS OPEB were \$-0-, \$49,396, and \$50,960 for 2015, 2014, and 2013, respectively. Those amounts are not reflected in the OPEB costs in the table above.

Defined Contribution OPEB

Defined Contribution Pension Plan Participants (PERS Tier IV) participate in the Occupational Death and Disability Plan (ODD), and the Retiree Medical Plan. Information on these plans is included in the comprehensive annual financial report for the PERS plan noted above. These plans provide for death, disability, and post-employment health care benefits.

Employer Contribution Rates

Employees do not contribute to the DC OPEB plans. Employer contribution rates were as follows for the year ended June 30, 2015:

	<u>PERS Tier IV</u>
Retiree medical plan	1.66%
Occupational death and disability benefits	0.22%
	<u>1.88%</u>

In addition, PERS defined contribution members also participate in the Health Reimbursement Arrangement. AS 39.30.370 establishes this contribution amount as “three percent of the average annual employee compensation of *all employees of all employers* in the plan”. As of July 1, 2014, for actual remittance, this amount is calculated as a flat rate for each full time or part-time employee per pay period and approximates \$1,961 per year for each full-time employee, and \$1.26 per hour for part-time employees for PERS.

Annual Postemployment Healthcare Cost

In 2015, the AEB contributed \$9,645 in DC OPEB costs to PERS. These amounts have been recognized as expenditures.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 11 - DEFERRED COMPENSATION PLAN

The Borough offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights (until paid or made available to the employee or other beneficiary) are solely the property and rights of the Borough (without being restricted to provisions of benefits under the plan), subject only to claims of the Borough's general creditors. Participants' rights under the plan are equal to those of general creditors of the Borough in the amount equal to fair market value of the deferred account for each participant.

The Borough has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The Borough believes it is unlikely it will use the assets to satisfy claims of general creditors in the future. Assets of the fund totaled \$725,552 at June 30, 2015, and are accounted for in the deferred compensation agency fund.

NOTE 12 - THE ALEUTIANS EAST BOROUGH SCHOOL DISTRICT CONTRIBUTION

During the year ended June 30, 2015, the Borough contributed \$1,004,663 to the Aleutians East Borough School District, which is a component unit of the Borough. Of this amount, \$968,000 was for a local contribution, \$16,663 was for scholarships, and \$20,000 was for student travel.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The Aleutians East Borough participates in a number of federal- and State-assisted grant programs. These programs are subject to program compliance audits by grantors or their representatives. The amount, if any, of expenditures that may be disallowed by granting agencies cannot be determined at this time, although the Borough expects such amounts, if any, to be immaterial.

Litigation

A claim was submitted by Kelly-Ryan, Inc, against the Army Corps of Engineers arising from a contract dispute relating to the construction of the False Pass Harbor. The claim was filed for equitable adjustment of contract price/breach of contract damages asserting a claim of \$36,231,362 of an original contract amount of \$15,981,000. Since the project cooperation agreement between the Department of the Army and the Borough provides for cost sharing on the part of the Borough of up to 10%, subject to certain conditions, restriction, and calculations. It has been advised that the borough is responsible for 10% of construction costs and 10% of any litigation claim awarded to Kelly-Ryan, Inc.

At the date of the financial statements, the amount of the loss contingency, if any, was not reasonably estimatable, and deemed neither probable nor remote, hence no contingencies have been booked in the current year.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 13 - COMMITMENTS AND CONTINGENCIES, continued

Litigation

On March 1, 2016, The lawsuit brought forth by the borough against ASRC SKW Eskimos, Inc. regarding numerous causes of action relating to faulty construction of King Cove school building was resolved favorably for the borough, and dismissed by stipulation of the parties. Due to the favorable outcome, no risk of loss remains for the Borough.

NOTE 14 – SUBSEQUENT EVENTS

In preparing these financial statements, the Borough has evaluated all other events and transactions for potential recognition or disclosure through March 29th, 2016, the date the financial statements were issued and has concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

NOTE 15 – INVESTMENT IN SOUTHWEST GOVERNMENTS, LLC

The Borough has an interest in Southwest Governments, LLC. The partnership was formed by the City of Akutan (40%), the City of Sand Point (20%), the City of King cove (10%), and the Borough (30%). The Borough leases office space from the partnership, total payments to the partnership for the year were \$114,005. The partnership paid \$30,000 in distributions during 2015. The balance of the Borough's ownership at June 30, 2015 was \$409,551.

NOTE 16 – SUBSEQUENT ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates. Management has not fully evaluated the potential effects of these statements, but believes that GASB Statement 76 have the greatest impact. Actual impacts have not yet been determined:

GASB 76 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. Effective for periods beginning after June 15, 2015, applied retroactively. This statement supersedes GASB 55.

GASB 72 – Fair Value Measurement and Application. Effective for periods beginning after June 15, 2015. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

NOTE 17 – HELICOPTER OPERATIONS

During fiscal year 2014, the Borough entered into a contract with Maritime Helicopters to transport people and mail from Akutan Airport to the City of Akutan. The contract is in effect through November 2016, with an option to renew for two years.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 18 – IMPAIRMENT OF HOVERCRAFT

During 2015, the Borough evaluated the fair value of the Hovercraft, and has recognized an impairment loss of \$3,694,854 to recognize it at its proper estimated value of \$5,000,000. The Hovercraft is available for sale, and as such, is no longer being depreciated.

NOTE 19 – PRIOR PERIOD ADJUSTMENT AND CHANGE IN ACCOUNTING PRINCIPLE

During 2015, the Borough recorded prior period adjustments to net position which comprised of an increase to net position of \$345,000 to true up overstated beginning bonds payable, and a decrease to net position of \$8,271,384 to true up beginning understated depreciation on capital assets which should have been placed in service. This resulted in a net decrease in beginning net position of \$7,926,384. There was also a decrease in fund balance due to improper recognition of accounts payable from outstanding construction costs of \$3,813,089, which also resulted in an increase to beginning construction in progress. In addition the Borough adopted the following change in accounting principle.

As discussed in Note 8 to the financial statements, the Borough participates in a defined benefit plan; The Alaska Public Retirement System (PERS). In 2015 the Borough adopted the provisions of GASB Statement No. 68 Accounting and Financial Reporting for Pension, which, among other accounting reporting criteria, requires the Borough to recognize its proportional share of the Net Pension Liability and related deferred inflows/outflows, as of the beginning of the Borough's fiscal year. As a result of the implementation of this statement, the Borough has recorded an opening balance adjustment of \$1,389,949 to reflect opening balance pension liabilities and related accounts as well as a Prior Period Adjustment of \$1,588 to properly record Pension expense. The effect of these adjustment on the opening net position was as follows

	Opening net position, as originally posted	Change in accounting principle adjustment	Other Prior Period Adjustments	Opening net position as restated
Governmental Funds:				
General Fund	\$ 17,947,092	1,588	-	17,948,680
Bond Construction Fund	4,226,041	-	(3,813,089)	412,952
Other Funds	37,079,403	-	-	37,079,403
Total	<u>\$ 59,252,536</u>	<u>1,588</u>	<u>(3,813,089)</u>	<u>55,441,035</u>
Governmental Activities:				
Primary Government	\$ 100,853,853	(1,389,949)	(7,926,384)	91,537,520
Business-Type Activities	6,369,391	-	-	6,369,391
Total	<u>\$ 107,223,244</u>	<u>(1,389,949)</u>	<u>(7,926,384)</u>	<u>97,906,911</u>

SUPPLEMENTAL INFORMATION

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Exhibit E-1

General Fund

*Statement of Revenues, Expenses, and Changes
in Fund Balance - Budget and Actual*

Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Federal government:				
Payment in lieu of taxes	\$ 559,000	489,495	545,601	56,106
<i>Total federal government</i>	<u>559,000</u>	<u>489,495</u>	<u>545,601</u>	<u>56,106</u>
State of Alaska:				
Raw fish tax	1,869,127	1,769,278	1,769,278	-
State bond rebate	1,045,464	823,413	823,413	-
State fish landing tax	48,864	35,468	35,468	-
State extraterritorial fish tax	243,084	129,304	129,304	-
State revenue sharing	407,630	407,579	407,579	-
State PERS on-behalf funding	-	-	387,469	387,469
<i>Total State of Alaska</i>	<u>3,614,169</u>	<u>3,165,042</u>	<u>3,552,511</u>	<u>387,469</u>
Borough raw fish tax	3,200,779	3,998,105	3,998,104	(1)
Investment income	35,000	35,730	2,113	(33,617)
Other	43,256	60,155	284,668	224,513
<i>Total revenues</i>	<u>7,452,204</u>	<u>7,748,527</u>	<u>8,382,997</u>	<u>634,470</u>
Expenditures:				
Mayor's office:				
Salaries	75,449	75,449	75,449	-
Fringe benefits	27,810	33,527	33,527	-
Travel and per diem	36,000	31,620	28,298	3,322
Telephone	2,400	1,410	1,406	4
Supplies	1,000	775	773	2
Lobbying	120,600	117,820	117,817	3
<i>Total Mayor's office</i>	<u>263,259</u>	<u>260,601</u>	<u>257,270</u>	<u>3,331</u>
Assembly:				
Salaries	25,000	27,000	27,000	-
Fringe benefits	56,000	102,345	102,341	4
Travel and per diem	40,000	47,220	47,219	1
Telephone	4,500	-	-	-
Supplies	500	3,305	3,304	1
<i>Total assembly</i>	<u>126,000</u>	<u>179,870</u>	<u>179,864</u>	<u>6</u>

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*General Fund**Statement of Revenues, Expenses, and Changes
in Fund Balance - Budget and Actual, continued*

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures, continued:				
Clerk and planning management:				
Salaries	88,443	85,862	85,561	301
Fringe benefits	33,524	42,568	42,568	-
Travel and per diem	12,500	13,522	10,207	3,315
Telephone	7,500	5,371	5,370	1
Postage	1,500	240	239	1
Supplies	9,000	3,542	3,541	1
Utilities	20,000	23,202	23,201	1
Dues and fees	5,000	2,840	2,838	2
Elections	8,000	4,002	4,001	1
Planning Commission	70,000	27,679	27,678	1
<i>Total clerk and planning management</i>	<u>255,467</u>	<u>208,828</u>	<u>205,204</u>	<u>3,624</u>
Administration:				
Salaries	178,349	178,778	178,778	-
Fringe benefits	64,234	86,740	88,328	(1,588)
Contract labor	18,000	18,000	18,000	-
Travel and per diem	25,500	25,590	22,269	3,321
Telephone	6,000	9,320	9,318	2
Postage	2,500	1,336	1,336	-
Supplies	18,120	15,220	15,220	-
Rent	14,500	14,821	14,821	-
Dues and fees	2,500	465	465	-
<i>Total administration</i>	<u>329,703</u>	<u>350,270</u>	<u>348,535</u>	<u>1,735</u>
Assistant administrator:				
Salaries	90,000	90,000	89,936	64
Fringe benefits	30,000	37,645	37,645	-
Travel and per diem	10,000	9,985	9,984	1
Telephone	4,000	660	660	-
Postage	200	-	-	-
Supplies	2,500	1,765	1,764	1
Rent	8,903	9,121	9,120	1
<i>Total assistant administrator</i>	<u>145,603</u>	<u>149,176</u>	<u>149,109</u>	<u>67</u>
Finance:				
Salaries	127,290	123,630	123,630	-
Fringe benefits	51,161	59,096	59,095	1
Travel and per diem	7,000	7,563	7,563	-

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Exhibit E-1, continued

General Fund

*Statement of Revenues, Expenses, and Changes
in Fund Balance - Budget and Actual, continued*

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures, continued:				
Finance, continued:				
Telephone	\$ 5,000	8,233	8,233	-
Postage	2,500	1,106	1,105	1
Supplies	5,000	12,839	12,839	-
Utilities	5,000	3,894	3,893	1
Audit	45,000	43,380	43,380	-
<i>Total finance</i>	<u>247,951</u>	<u>259,741</u>	<u>259,738</u>	<u>3</u>
Resource department:				
Salaries	86,909	86,910	86,909	1
Fringe benefits	30,040	36,788	36,787	1
Contract labor	75,000	46,250	46,250	-
Travel and per diem	85,000	23,262	23,262	-
Meetings	30,000	4,116	4,116	-
Telephone	3,000	675	675	-
Supplies	7,000	2,250	2,250	-
Rent	8,903	9,121	9,120	1
SEMD Sampling	15,000	13,245	13,245	-
Public information officer	172,823	172,794	172,791	3
<i>Total resource department</i>	<u>513,675</u>	<u>395,411</u>	<u>395,405</u>	<u>6</u>
Public works:				
Salaries	79,838	90,420	90,420	-
Fringe benefits	29,602	35,497	35,496	1
Travel and per diem	11,000	13,010	13,009	1
Telephone	1,500	1,145	1,144	1
Supplies	6,000	2,667	2,667	-
Equipment	1,500	-	-	-
Utilities	2,000	445	444	1
<i>Total public works</i>	<u>131,440</u>	<u>143,184</u>	<u>143,180</u>	<u>4</u>
Development director:				
Salaries	76,559	-	-	-
Fringe benefits	27,256	-	-	-

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*General Fund**Statement of Revenues, Expenses, and Changes
in Fund Balance - Budget and Actual, continued*

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures, continued:				
Development director, continued:				
Travel and per diem	\$ 10,000	-	-	-
Telephone	4,000	-	-	-
Postage	250	-	-	-
Supplies	4,500	-	-	-
Rent	8,903	-	-	-
<i>Total special assistant</i>	<u>131,468</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other:				
Local school contribution	968,000	968,000	968,000	-
Student scholarship	20,000	16,663	16,663	-
Student travel	20,000	20,000	20,000	-
PERS on-behalf expense	-	-	387,469	(387,469)
Utilities	25,000	28,488	28,488	-
Equipment	33,200	63,592	63,591	1
Legal	175,000	54,996	54,995	1
Insurance	150,000	191,424	191,424	-
Bank fees	2,000	482	482	-
Contribution to Eastern Aleutians Tribes	150,000	150,000	150,000	-
Revenue sharing - Nelson Lagoon	32,000	40,400	40,400	-
Aleutia Crab	58,522	58,496	58,495	1
King Cove Access Project	115,123	132,809	132,806	3
Donations	23,500	15,150	15,150	-
Web service	25,000	49,492	49,191	301
Miscellaneous expense	106,000	91,952	91,979	(27)
<i>Total other</i>	<u>1,903,345</u>	<u>1,881,944</u>	<u>2,269,133</u>	<u>(387,189)</u>
<i>Total expenditures</i>	<u>4,047,911</u>	<u>3,829,025</u>	<u>4,207,438</u>	<u>(378,413)</u>
Excess of revenues over expenditures	<u>3,404,293</u>	<u>3,919,502</u>	<u>4,175,559</u>	<u>256,057</u>
Other financing uses - Operating transfers:				
Debt service fund	<u>(1,597,433)</u>	<u>(1,597,433)</u>	<u>(2,616,645)</u>	<u>1,019,212</u>
<i>Total other financing uses</i>	<u>(1,597,433)</u>	<u>(1,597,433)</u>	<u>(2,616,645)</u>	<u>1,019,212</u>
Excess of revenues over expenditures and other financing uses	<u>\$ 1,806,860</u>	<u>2,322,069</u>	<u>1,558,914</u>	<u>1,275,269</u>
Prior Period Adjustment, GASB 68			1,588	
Beginning fund balance			<u>17,947,092</u>	
Ending fund balance			<u>\$ 19,507,594</u>	

THE ALEUTIANS EAST BOROUGH

Exhibit F-1

King Cove, Alaska

*Capital Improvements**Statement of Revenues, Expenses,
and Changes in Fund Deficit**Year Ended June 30, 2015*

Revenues:

Federal revenue	\$ 167,992
State revenue	242,243
Investment income	1,043
Other	<u>900,000</u>
<i>Total revenues</i>	<u>1,311,278</u>

Expenditures:

Salaries	12,853
Repairs and maintenance	71,000
Supplies	64,000
Capital projects	606,638
Other	<u>371</u>
<i>Total capital outlays</i>	<u>754,862</u>

Excess of revenues over expenditures	<u>556,416</u>
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Beginning fund deficit	<u>(662,410)</u>
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Ending fund deficit	<u><u>\$ (105,994)</u></u>
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THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Exhibit G-1

Trust Fund

*Statement of Revenues, Expenses,
and Changes in Fund Balance*

Year Ended June 30, 2015

Revenues:	
Investment income	<u>\$ 1,464,851</u>
<i>Total revenues</i>	<u>1,464,851</u>
Expenditures - management fee	<u>41,684</u>
<i>Total expenditures</i>	<u>41,684</u>
Excess of revenues over expenditures	1,423,167
Beginning fund balance	<u>37,328,823</u>
Ending fund balance	<u><u>\$ 38,751,990</u></u>

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Debt Service**Statement of Revenues, Expenses,
and Changes in Fund Balance (Deficit)**Year Ended June 30, 2015*

Revenues - Investment income	\$ -
Expenditures:	
Principle	3,635,000
Interest	<u>1,326,701</u>
<i>Total expenditures</i>	<u>4,961,701</u>
Excess of expenditures over revenues	(4,961,701)
Other financing sources	
Refunding bonds	2,205,000
Operating transfer from general fund	<u>2,616,645</u>
<i>Total other financing sources</i>	<u>4,821,645</u>
Excess of expenditures and other financing source over revenues	(140,056)
Beginning fund balance	<u>75,123</u>
Ending fund deficit	<u>\$ (64,933)</u>

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Bond Construction

*Statement of Revenues, Expenses,
and Changes in Fund Balance*

Year Ended June 30, 2015

Revenues:	
Investment income	\$ 8,418
<i>Total revenues</i>	<u>8,418</u>
 Expenditures - capital outlays	 <u>70,892</u>
 Excess of expenditures over revenues	 (62,474)
 Beginning fund balance	 4,226,041
Prior period adjustment	<u>(3,813,089)</u>
Beginning fund balance, restated	<u>412,952</u>
 Ending fund balance	 <u><u>\$ 350,478</u></u>

THE ALEUTIANS EAST BOROUGH

Exhibit J-1

King Cove, Alaska

*Nonmajor Funds**Combining Balance Sheet**June 30, 2015*

	<u>Maintenance Reserve</u>	<u>King Cove Access Project</u>	<u>Total</u>
Assets			
Receivables, school	\$ 26,386	-	26,386
Due from other funds	<u>125,955</u>	<u>280,770</u>	<u>406,725</u>
	<u>\$ 152,341</u>	<u>280,770</u>	<u>433,111</u>
 Liabilities and Fund Balance			
Liabilities:			
Accounts payable	\$ 629	-	629
<i>Total liabilities</i>	<u>629</u>	<u>-</u>	<u>629</u>
 Fund balances:			
Committed - Construction	-	280,770	280,770
Assigned - Designated for major maintenance	<u>151,712</u>	<u>-</u>	<u>151,712</u>
<i>Total fund balances</i>	<u>151,712</u>	<u>280,770</u>	<u>432,482</u>
	<u>\$ 152,341</u>	<u>280,770</u>	<u>433,111</u>

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Nonmajor Funds**Statement of Revenues, Expenditures
and Changes in Fund Balance**Year Ended June 30, 2015*

	<u>Maintenance Reserve</u>	<u>King Cove Access Project</u>	<u>Total</u>
Revenues:			
Other	<u>\$ 274,426</u>	<u>-</u>	<u>274,426</u>
<i>Total revenues</i>	<u>274,426</u>	<u>-</u>	<u>274,426</u>
Expenditures - Capital outlay:			
Salaries and benefits	21,489	-	21,489
Legal	96,118	-	96,118
Supplies	5,102	-	5,102
Capital projects	<u>57,102</u>	<u>-</u>	<u>57,102</u>
<i>Total expenditures - Capital outlay</i>	<u>179,811</u>	<u>-</u>	<u>179,811</u>
Excess of revenues under expenditures	94,615	-	94,615
Beginning fund balances	<u>57,097</u>	<u>280,770</u>	<u>337,867</u>
Ending fund balances	<u><u>\$ 151,712</u></u>	<u><u>280,770</u></u>	<u><u>432,482</u></u>

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Schedule of Proportionate Share of the Net Pension Liability and Related Ratios

June 30, 2015

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Borough's proportion of the net pension liability	0.02857837%	0.02855247%	*	*	*	*	*	*	*	*
Borough's proportionate share of the net pension liability	\$ 1,332,935	1,499,404	*	*	*	*	*	*	*	*
State of Alaska proportionate share of the net pension liability	<u>782,704</u>	<u>889,275</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
Total net pension liability	<u>2,115,639</u>	<u>2,388,679</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
Borough's covered-employee payroll	\$ 922,215	820,898	*	*	*	*	*	*	*	*
Borough's proportionate share of the net pension liability as a percentage of covered-employee payroll	145%	183%	*	*	*	*	*	*	*	*
Plan fiduciary net position as a percentage of the total pension liability	62.37%	56.00%	*	*	*	*	*	*	*	*

* Information for these years is not available.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Schedule of Required Contributions

June 30, 2015

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contribution	\$ 124,966	109,613	98,444	*	*	*	*	*	*	*
Contributions in relation to the contractually required contribution	<u>124,966</u>	<u>109,613</u>	<u>98,444</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
Borough's covered-employee payroll	\$ 892,712	\$ 922,215	\$ 820,898	*	*	*	*	*	*	*
Contributions as a percentage of covered-employee payroll	14%	12%	12%	*	*	*	*	*	*	*

* Information for these years is not available.

FEDERAL COMPLIANCE REPORT

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Schedule of Expenditures of Federal Awards**Year Ended June 30, 2015*

<u>Federal Grant Title</u>	<u>Award Identification</u>	<u>CFDA Number</u>	<u>Total Grant Award</u>	<u>Eligible Expenditures</u>
U.S. Department of Interior:				
Payment in lieu of taxes*	Unknown	15.226	\$ 545,601	545,601
Create A Resource Development Land Use Permitting	10-CIAP-012	15.668	255,050	115,343
Nelson Lagoon Erosion	10-CIAP-013	15.668	238,800	50,076
<i>Total Department of the Interior</i>			<u>1,039,451</u>	<u>711,020</u>
U.S. Department of Commerce:				
Akutan Harbor Float Improvement Project	07-01-06812	11.300	1,000,000	2,573
<i>Total Department of Commerce</i>			<u>1,000,000</u>	<u>2,573</u>
Total federal awards			<u>\$ 2,039,451</u>	<u>713,593</u>

*Indicates a major program for compliance audit purposes.

This schedule was prepared on the accrual basis of accounting.



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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

Honorable Mayor and Borough Assembly
The Aleutians East Borough
King Cove, Alaska

Ladies and Gentlemen:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Aleutians East Borough as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Aleutians East Borough's basic financial statements, and have issued our report thereon dated March 29th, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Aleutians East Borough's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Aleutians East Borough's internal control. Accordingly, we do not express an opinion on the effectiveness of Aleutians East Borough's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Honorable Mayor and Borough Assembly
The Aleutians East Borough

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Aleutians East Borough's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Anchorage, Alaska
March 29, 2016



Newhouse & Vogler

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Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance as Required by OMB Circular A-133

Independent Auditor's Report

Honorable Mayor and Borough Assembly
The Aleutians East Borough
Anchorage, Alaska

Ladies and Gentlemen:

Report on Compliance for Each Major Federal Program

We have audited Aleutians East Borough's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Aleutians East Borough's major federal programs for the year ended June 30, 2015. The Aleutians East Borough's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Aleutians East Borough's major federal programs based on our audit of the type of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Aleutians East Borough's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our compliance audit provides a reasonable basis for our opinion. However, our audit does not provide a legal determination on the Aleutians East Borough's compliance.

Opinion on each Major Federal Program

In our opinion, the Aleutians East Borough complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Honorable Mayor and Borough Assembly
The Aleutians East Borough

Report on Internal Control over Compliance

Management of The Aleutians East Borough is responsible for establishing and maintaining effective internal control over compliance with the types of compliance referred to above. In planning and performing our audit of compliance, we considered The Aleutians East Borough's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Aleutians East Borough's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Anchorage, Alaska
March 29, 2016

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Summary of Auditor's Results and Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

FINANCIAL STATEMENTS

Type of auditor report issued:		Unmodified
Material weakness in internal control over financial reporting identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiencies not considered a material weakness identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Noncompliance related to the financial statements identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

FEDERAL AWARDS

Type of auditor report issued on compliance over major programs:		Unmodified
Material weakness in internal control over major programs identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiencies not considered a material weakness identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Audit findings that are required to be reported in accordance with OMB Circular A-133, Section 510(a)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

IDENTIFICATION OF MAJOR PROGRAMS

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster of Programs</u>
15.226	DOI- PILT

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

The Aleutians East Borough did not have any findings that relate to the financial statements that are required to be reported in accordance with GAGAS.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

The Aleutians East Borough did not have any findings or questioned costs related to federal awards for the year ended June 30, 2015.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Summary of Prior Audit Findings

Year Ended June 30, 2015

There are no prior findings or questioned costs.

STATE COMPLIANCE REPORTS

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Schedule of Expenditures of State Awards

Year Ended June 30, 2015

Grant Title	Award Identification	Period	Total Grant Award	State Share of Expenditures
Department of Community and Regional Affairs:				
Fish landing tax supplement*	Unknown	7/01/14 - 6/30/15	\$ 129,304	129,304
Fish landing tax	Unknown	7/01/14 - 6/30/15	<u>35,468</u>	<u>35,468</u>
<i>Total Department of Community and Regional Affairs</i>			<u>164,772</u>	<u>164,772</u>
Department of Commerce, Community and Economic Development:				
Revenue sharing*	Unknown	7/01/14 - 6/30/15	407,579	407,579
Akutan Harbor Floats	15-DC-004	7/01/14 - 6/30/19	300,000	28,408
King Cove Access Project	14-RR-067	7/01/14 - 6/30/18	<u>1,958,992</u>	<u>213,835</u>
<i>Total Department of Commerce, Community and Economic Development:</i>			<u>2,666,571</u>	<u>649,822</u>
Department of Revenue - Raw fish tax*	Unknown	7/01/14 - 6/30/15	<u>1,769,278</u>	<u>1,769,278</u>
Department of Education - Debt retirement*	Unknown	7/01/14 - 6/30/15	<u>823,413</u>	<u>823,413</u>
Department of Administration: Pers on-behalf*	Unknown	7/01/14 - 6/30/15	<u>387,469</u>	<u>387,469</u>
Total State financial assistance			<u>\$ 5,811,503</u>	<u>3,794,754</u>

*Indicates a major program.

This schedule was prepared on the accrual basis of accounting.



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Independent Auditor's Report on Compliance for Each Major State Program and Report on Internal Control over Compliance Required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

Honorable Mayor and Borough Assembly
The Aleutians East Borough
King Cove, Alaska

Ladies and Gentlemen:

Report on Compliance for Each Major State Program

We have audited Aleutians East Borough's compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of Aleutians East Borough's major state programs for the year ended June 30, 2015. Aleutians East Borough's major state programs are identified in the accompanying schedule of state financial assistance.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Aleutians East Borough's major state programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about Aleutians East Borough's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However our audit does not provide a legal determination of Aleutians East Borough's compliance.

Opinion on Each Major State Program

In our opinion, Aleutians East Borough complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2015.

Honorable Mayor and Borough Assembly
The Aleutians East Borough

Report on Internal Control over Compliance

Management of Aleutians East Borough is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Aleutians East Borough's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Aleutians East Borough's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Accordingly, this report is not suitable for any other purpose.



Anchorage, Alaska
March 29, 2016

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

*Summary of Auditor's Results and
Schedule of Findings and Questioned Costs*

Year Ended June 30, 2015

FINANCIAL STATEMENTS

Type of auditor report issued:		Unmodified
Internal Control over financial reporting:		
Material weakness (es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency (ies) identified?	<u> </u> Yes	<u> X </u> No
Noncompliance material to financial statements?	<u> </u> Yes	<u> X </u> No

STATE FINANCIAL ASSISTANCE

Type of auditor report issued on compliance for major programs:		Unmodified
Internal control over major programs:		
Material weakness (es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency (ies) identified?	<u> </u> Yes	<u> X </u> No

Dollar threshold used to distinguish a state major program:	\$ 75,000
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FINDINGS RELATED TO THE FINANCIAL STATEMENTS

The Aleutians East Borough did not have any findings that relate to the financial statements that are required to be reported in accordance with GAGAS.

FINDINGS AND QUESTIONED COSTS FOR STATE AWARDS

The Aleutians East Borough did not have any findings or questioned costs related to state awards for the year ended June 30, 2015.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Summary of Prior Audit Findings

Year Ended June 30, 2015

There were no prior audit findings.